

1 REDACTED VERSION OF DOCUMENT SOUGHT TO BE FILED UNDER SEAL

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17 UNITED STATES DISTRICT COURT
18 NORTHERN DISTRICT OF CALIFORNIA

19

SAN FRANCISCO DIVISION

20

VERINATA HEALTH, INC.,) Lead Case No. 3:12-cv-05501-SI
21 Plaintiff and) Case No. 3:14-cv-01921-SI
22 Counterclaim-Defendant,) Case No. 3:15-cv-02216-SI
23 vs.)
24 ARIOSA DIAGNOSTICS, INC.,)
25 Defendant and)
26 Counterclaim-Plaintiff.)
27 **ARIOSA DIAGNOSTICS, INC.'S
28 OPPOSITION TO PLAINTIFFS AND
 COUNTERCLAIM DEFENDANTS
 ILLUMINA, INC. AND VERINATA
 HEALTH, INC.'S MOTION FOR
 SUMMARY JUDGMENT [D.I. 395]**

29

ILLUMINA, INC.,)
30 Plaintiff and Counterclaim-)
31 Defendant)
32 vs.)
33 Judge: Hon. Susan Illston
34 ARIOSA DIAGNOSTICS, INC.,)
35 Defendant and Counterclaim-)
36 Plaintiff.)
37 **Date: October 12, 2017
38 Time: 10:00 a.m.
39 Ctrm.: 1, 17th Floor**

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4 vs.)
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6 Defendant and Counterclaim-)
7 Plaintiff.)

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2 **I. INTRODUCTION**

3 In its arguments regarding assignor estoppel, Illumina fails to prove that the balance of
4 equities tips in its favor. Indeed, Illumina seeks to expand the doctrine far beyond what it was
5 intended to accomplish. Assignor estoppel exists to bar one who assigns rights to an invention
6 from later challenging the validity of that invention in derogation of the title assigned. Illumina
7 argues that U.S. Patent No. 7,955,794 (the “’794 patent”) claims an invention that its former
8 employees, John Stuelpnagel and Arnold Oliphant, assigned to Illumina before they moved on to
9 work for Ariosa. But Ariosa has presented ample evidence that the issued claims of the ’794 patent
10 do not recite the invention that Drs. Stuelpnagel and Oliphant assigned to Illumina—and that their
11 invention is in fact reflected in the claims of a different patent. Moreover, Ariosa has never used
12 the invention that Drs. Stuelpnagel and Oliphant assigned to Illumina. To bar Ariosa (as a privy)
13 from challenging the validity of the *different* invention claimed in the ’794 patent would not
14 protect any equitable interest of Illumina. Yet it would be tremendously unfair to Ariosa. The
15 facts, which here must be viewed in the light most favorable to Ariosa, all weigh against applying
assignor estoppel.

16 Illumina’s arguments regarding Ariosa’s Counterclaims are also fatally flawed because
17 Illumina filed suit against Ariosa in breach of the rights Illumina granted to Ariosa. [REDACTED]

18 [REDACTED] This included details on its DANSR library
19 preparation assay, which is an integral part of the Harmony test and which Illumina now accuses
20 of infringing the ’794 patent. In January 2012, Ariosa and Illumina entered into a Sale and Supply
21 Agreement (“SSA”). The SSA included an express license to “Core” Illumina intellectual property
22 rights that “pertain to” Ariosa’s use of Illumina’s sequencers and reagents.
23 [REDACTED]

24 [REDACTED]
25 [REDACTED]
26 [REDACTED]
27 [REDACTED] Although the ’794 patent issued seven months
28 before the SSA was signed, Illumina never suggested that Ariosa needed a license to the ’794

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2 patent for its DANSR assay, which Illumina was well aware of based on the [REDACTED]

3 [REDACTED] as recited in the SSA.

4 The Illumina-Ariosa relationship significantly deteriorated after Illumina acquired Ariosa's
5 competitor, Verinata, the following year. Now that Ariosa was a commercial adversary, and
6 knowing that Ariosa was dependent on Illumina as its sole supplier of sequencers and reagents,
7 Illumina began manufacturing pretextual claims that Ariosa breached the SSA. Then, the day after
8 Ariosa announced the pricing for its forthcoming IPO, Illumina sued Ariosa for infringement of
the '794 patent in breach of the rights it granted under the SSA.

9 In its motion for summary judgment on Ariosa's Counterclaims, Illumina argues that the
10 SSA conferred no rights to the '794 patent because that patent supposedly does not "pertain to"
11 Ariosa's "use" of Illumina's sequencers. Br.¹ at 9-11, 13-14. This remarkable argument flies in the
12 face of Illumina's own infringement contentions. Claim 1 of the '794 patent, the only independent
13 claim, recites a multi-step method. Illumina alleges that Ariosa infringed this method through its
14 use of Illumina's sequencers. Indeed, for version 1 of the Harmony test, Illumina's infringement
15 expert relies solely on Ariosa's use of Illumina's sequencers to meet steps (f) and (g) of the claim.
16 Ex. 40 (Cooper Rpt.) at ¶¶ 127, 136. To meet the other steps of the claim, he relies on Ariosa's
17 DANSR library preparation assay, *the purpose of which is to produce inputs to Illumina's*
18 *sequencers*. The notion that the '794 patent, as Illumina itself has interpreted it, does not "pertain
19 to" Ariosa's use of Illumina's sequencers is not credible, much less an issue that can be resolved
20 against Ariosa on summary judgment. Illumina's motion for summary judgment should be denied.

21 **II. ILLUMINA'S MOTION ON ASSIGNOR ESTOPPEL SHOULD BE DENIED**

22 Assignor estoppel may, under certain circumstances, arise from the assignment of "rights
23 to [one's] inventions." *Diamond Sci. Co. v. Ambico, Inc.*, 848 F.2d 1220, 1226 (Fed. Cir. 1988).
24 Determining whether it applies, however, requires that a court balance the equities. *Id.* at 1225

25

26 ¹ "Br." herein refers to Plaintiffs' memorandum, at D.I. 395. "Ex." herein refers to the exhibits
27 (nos. 1-19) filed with the 9/1/2017 Declaration of Sandra L. Haberny, D.I. 404, 405 and 409, and
28 the exhibits (nos. 20-61) concurrently filed with the 9/15/2017 Declaration of Sandra L. Haberny
In Support Of Ariosa Diagnostics, Inc.'s Oppositions To Plaintiffs And Counterclaim Defendants
Illumina, Inc. And Verinata Health, Inc.'s Motion For Summary Judgment And Illumina, Inc.'s
Anti-SLAPP Motion.

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1 (“Our analysis must be concerned mainly with the balance of equities between the parties”); *see*
2 *also Shamrock Techs., Inc. v. Med. Sterilization, Inc.*, 903 F.2d 789, 793 (Fed. Cir. 1990)
3 (“Assignor estoppel is an equitable doctrine … that is mainly concerned with the balance of the
4 equities between the parties.”).

5 The Supreme Court has instructed that, in balancing the equities, “the scope of the right
6 conveyed in the assignment of patent rights before the granting of the patent ‘is much less
7 certainly defined than that of a granted patent, and the question of the extent of the estoppel
8 against the assignor of such an inchoate right is more difficult to determine than in the case of the
9 patent assigned after its granting.’” *Diamond Sci.*, 848 F.2d at 1226 (quoting *Westinghouse Elec.
& Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 352-53 (1924)). Thus, “the range of relevant
10 and competent evidence in fixing the limits of the subsequent estoppel should be more liberal than
11 in the case of an assignment of a granted patent.” *Id.* As the Federal Circuit has explained, the
12 Supreme Court “did not advocate a liberal definition of the invention in favor of the assignee.”
13 *Q.G. Prods., Inc. v. Shorty, Inc.*, 992 F.2d 1211, 1213 (Fed. Cir. 1993). “Rather the Court
14 advocated admission of *more evidence* to determine carefully the limits of the estoppel . . . [i]n
15 other words, because the bounds of the invention are less certain, the Court recommended
16 consideration of *ample evidence* to define the assignor’s representations.” *Id.* (emphasis added).
17

18 Illumina has not presented “ample” undisputed “evidence” sufficient to tip the balance of
19 equities here. Illumina claims that “Ariosa is barred from challenging the validity of . . . the ’794
20 patent[] pursuant to the doctrine of assignor estoppel.” Br. at 1. But its factual bases for this are
21 hotly disputed. Illumina’s arguments are also at odds with the policies underlying the doctrine—
22 and if granted, would work a tremendous injustice to Ariosa and stifle innovation and competition
23 in the non-invasive prenatal testing field. Illumina’s motion should be denied.

24 **A. Drs. Stuelpnagel And Oliphant’s Invention Is Not Included In The ’794 Patent**

25 Ariosa has put forth significant evidence demonstrating that Drs. Stuelpnagel and Oliphant
26 are not inventors of any of the ’794 patent claims, which is an absolute requirement for assignor
27 estoppel to apply here. *See, e.g., Diamond Sci.*, 848 F.2d at 1226; Ex. 20 (Cantor Rpt.) at ¶¶ 337-
28 367. This disputed issue of fact alone is fatal to Illumina’s motion.

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2 Drs. Stuelpnagel and Oliphant both testified that they are not inventors of the claims that
3 issued in the '794 patent. Ex. 22 (Stuelpnagel Tr.) at 123:8-11, 126:7-127:20; Ex. 23 (Oliphant
4 Tr.) at 245:7-249:8; Ex. 26 (Stuelpnagel Decl.) at ¶¶ 8-11, 14-15; Ex. 27 (Oliphant Decl.) at ¶¶ 8-
5 11, 14-15. Ariosa's expert, Dr. Charles Cantor, also confirmed that no documents, inventor
6 notebooks, or non-speculative testimony evidence an inventive contribution by Dr. Stuelpnagel or
7 Dr. Oliphant to the patent. Ex. 20 (Cantor Rpt.) at ¶¶ 353-356, 366; *see also* Ex. 24 [REDACTED] at
8 127:5-24; 129:24-130:23; Ex. 25 [REDACTED] at 161:11-24, 162:14-163:3, 163:24-164:6, 165:1-14.

9 Illumina contends that Drs. Stuelpnagel and Oliphant are properly named inventors on the
10 '794 patent claims because they came up with a "singular idea"—allele-specific extension-
11 ligation—which was allegedly an inventive contribution to the claims. Br. at 5. Illumina further
12 alleges that this "singular idea" is recited in claims 19 and 20. *Id.* at 4-5. But Ariosa's expert,
13 Dr. Cantor, carried out an inventorship analysis explaining why this "singular idea" of
14 Drs. Stuelpnagel and Oliphant is not recited in the '794 patent claims. Ex. 20 (Cantor Rpt.) at
15 ¶¶ 337-367. Drs. Stuelpnagel and Oliphant also have submitted declarations concurrently with this
16 Opposition explaining their allele-specific extension-ligation idea and why it is incompatible with
17 the subject matter claimed in the '794 patent. Ex. 26 (Stuelpnagel Decl.) at ¶¶ 2-14; Ex. 27
18 (Oliphant Decl.) at ¶¶ 2-14. Critically, the allele-specific extension-ligation method that Drs.
19 Stuelpnagel and Oliphant invented requires a "perfect complementarity" element that is absent
20 from, and antithetical to, the claims of the '794 patent. Ex. 26 (Stuelpnagel Decl.) at ¶¶ 4-7, 13
21 (explaining perfect complementarity requirement and incompatibility with the claims of the '794
22 patent); Ex. 27 (Oliphant Decl.) at ¶¶ 4-7, 13 (same); Ex. 20 (Cantor Rpt.) at ¶¶ 342, 344-345,
23 357-367 (same).

24 Illumina nevertheless attempts to bring Drs. Stuelpnagel's and Oliphant's allele-specific
25 extension-ligation invention into the scope of the '794 patent claims by alleging that it is
26 "synonymous with" the notion of "genotyping," and that the '794 patent claims cover
27 "genotyping." Br. at 5-8. This is a mischaracterization. Genotyping is a broad and generic concept.
28 Scientists have been practicing it for decades, and there are countless ways to do it. *See, e.g.*, Ex.
28 28 (Quackenbush Tr.) at 151:22-152:8. Drs. Stuelpnagel and Oliphant have never contended that

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2 they invented “genotyping,” nor has Illumina until now made such a broad and unsupportable
allegation.

3 Even if Drs. Stuelpnagel’s and Olliphant’s idea were a *form* of genotyping, it is not one that
4 is claimed in the ’794 patent or the subject of asserted claims in this case. Illumina cites to
5 deposition testimony of Drs. Cantor and Stuelpnagel for the proposition that “the ’794 patent
6 discloses genotyping embodiments,” and therefore Drs. Stuelpnagel and Olliphant are inventors.
7 Br. at 7. But nothing about that testimony suggests that *allele-specific extension-ligation*, which
8 requires the *perfect complementarity* element as explained in Dr. Cantor’s report and
9 Drs. Stuelpnagel’s and Olliphant’s declarations, is claimed in the ’794 patent. Ex. 26 (Stuelpnagel
10 Decl.) at ¶¶ 2-13; Ex. 27 (Olliphant Decl.) at ¶¶ 2-13; Ex. 20 (Cantor Rpt.) at ¶¶ 342-345, 357.

11 Illumina also alleges that Drs. Stuelpnagel and Olliphant are inventors because they
12 contributed to Illumina’s “GoldenGate” product, and GoldenGate is covered by the ’794 patent.
13 Br. at 1-2, 3-4.² But Illumina’s only support for this argument is the testimony of its expert and
14 another named inventor. *Id.* Illumina completely ignores the reports and deposition testimony of
15 Ariosa’s experts demonstrating that GoldenGate does *not* embody the ’794 patent. For example:

- 16 • Opinions and Testimony of Dr. Quackenbush: See Ex. 29 (Quackenbush Rpt.) at
17 ¶¶ 332-334 (explaining that GoldenGate uses allele-specific extension-ligation not
18 covered by the ’794 patent); *id.* at ¶¶ 335-344; Ex. 28 (Quackenbush Tr.) at 145:23-
19 146:18 (testifying that Figure 13 of the ’794 patent is a description of GoldenGate, but
20 is not covered by the ’794 patent claims); *id.* at 147:5-149:14 (similar); *id.* at 245:3-

22 ² From this, Illumina makes an insurmountable logical leap, asserting that assignor estoppel should
23 require Ariosa to “pay Illumina for the patented product it sells,” because Ariosa allegedly
24 “incorporated the GoldenGate technology.” Br. at 1-2. This is both irrelevant and demonstrably
25 false. Illumina’s own expert has opined that GoldenGate requires, among other things, allele-
26 specific extension-ligation—which the accused Harmony test indisputably does not do. *See, e.g.*,
27 Ex. 40 (Cooper Rpt.) at ¶ 345 (“As the [GoldenGate] Assay Workflow document explains . . . the
28 enzymes that are used to carry out this process include both a polymerase (for the extension) and a
ligase (for the ligation.”); Ex. 30 (GoldenGate Assay Workflow), at 1; Ex. 23 (Olliphant Tr.) at
125:13-126:21 (explaining that GoldenGate uses “an extension by polymerase” for extension-
ligation, and that the Harmony DANSR assay “does not use a polymerase” or “have an analog to
the polymerase” to perform such extension).

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2 246:11 (describing particular features of the '794 patent claims not present in
3 GoldenGate); *id.* at 252:1-253:4 (explaining that the '794 patent claims and
4 GoldenGate are “very different assays”); *id.* at 252:24-253:4 (noting that “Illumina
never licensed the '794 patent with the GoldenGate assay”).

- 5 • Opinions and Testimony of Dr. Cantor: Ex. 31 (Cantor Tr.) at 25:18-22 (testifying that
6 “GoldenGate[] is covered by a separate patent” than the '794 patent, and that “there is a
7 fundamental difference” between the two); *id.* at 27:3-10 (“GoldenGate ... [is]
8 different from what’s described in the '794” and listing differences); *id.* at 52:8-21 (“I
9 think the GoldenGate assay is patentably distinct from what’s in the '794...”).

10 Illumina further points to an obviousness-type double patenting (“ODP”) rejection and
11 terminal disclaimer made during prosecution to support its argument. Br. at 6. Illumina contends
12 that this ODP rejection and terminal disclaimer prove that Drs. Stuelpnagel and Oliphant are
13 inventors of the '794 patent because they are also named inventors on U.S. Patent No. 7,582,420
14 (the “'420 patent”) over which the ODP rejection and disclaimer were made. *Id.*; Ex. 64 ('420
15 patent) Illumina again ignores critical facts, including aspects of the prosecution history, and
16 misapplies the law.

17 Illumina filed U.S. Patent Application No. 10/177,727 (the “'727 application”—the
18 application from which the '794 patent ultimately issued—with 11 original claims, naming
19 Drs. Stuelpnagel and Oliphant among others as inventors. Ex. 20 (Cantor Rpt.) at ¶ 339; Ex. 21
20 (Godici Rpt.) at ¶¶ 53, 55. Claims 1-3 and 10 are the claims that ultimately issued in the '794
21 patent. *Id.* Drs. Stuelpnagel and Oliphant testified that they made an inventive contribution to
22 claim 5 of the original '727 application, but did not make an inventive contribution to (and
23 therefore are not inventors of) claims 1-3 and 10 of that application. Ex. 22 (Stuelpnagel Tr.) at
24 173:19-174:8, 176:7-8; Ex. 23 (Oliphant Tr.) at 187:14-188:23, 263:17-23; Ex. 26 (Stuelpnagel
25 Decl.) at ¶¶ 2-13, 15; Ex. 27 (Oliphant Decl.) at ¶¶ 2-13, 15. Drs. Stuelpnagel and Oliphant further
26 testified that claim 5 is the claim that embodies their allele-specific extension ligation invention.
27 Ex. 22 (Stuelpnagel Tr.) at 174:21-175:15, 176:12-23; Ex. 23 (Oliphant Tr.) at 264:13-265:1; Ex.
28 26 (Stuelpnagel Decl.) at ¶¶ 8-9, 15; Ex. 27 (Oliphant Decl.) at ¶¶ 8-9, 15. Notably, claim 5 is

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1 nearly identical to claim 1 of U.S. Patent Application No. 60/341,827 (the “‘827 application”), to
2 which the ’727 application claimed priority, and which names *only* Drs. Stuelpnagel and Oliphant
3 as inventors. *See* Ex. 20 (Cantor Rpt.) at ¶¶ 339-342; Ex 33 (’827 application).

4 During prosecution of the ’727 application, the USPTO made a restriction requirement on
5 the ground that pending claims 1-3 and 10 recited an invention that is patentably distinct from that
6 of claims 4-9 and 11 (which include claim 5).³ Ex. 20 (Cantor Rpt.) at ¶ 348. Illumina withdrew
7 claims 4-9 and 11, and prosecuted them as a separate application that issued as the ’420 patent. *Id.*
8 at ¶ 349. When Illumina did so, it removed from the ’727 application (and the ultimately issued
9 ’794 patent) the only inventive contribution that Drs. Stuelpnagel and Oliphant made. *See* Ex. 26
10 (Stuelpnagel Decl.) at ¶¶ 2-14; Ex. 27 (Oliphant Decl.) at ¶¶ 2-14; Ex. 20 (Cantor Rpt.) at ¶¶ 350-
11 367. The only patent that ended up including their invention is the ’420 patent. *Id.*

12 Illumina ignores all of that, and simply contends that the later ODP rejection proves that
13 Drs. Stuelpnagel and Oliphant must be inventors on the ’794 patent. Br. at 6. But Illumina
14 miscomprehends the import of an ODP rejection. “A double patenting rejection precludes one
15 person from obtaining more than one valid patent for either (a) the ‘same invention,’ or (b) an
16 ‘obvious’ modification of the same invention.” *In re Longi*, 759 F.2d 887, 892 (Fed. Cir. 1985).
17 Although two sets of claims may be deemed “not patentably distinct” for purposes of ODP, it does
18 not follow that they are the *same* invention, with the *same* inventorship. Claim sets can be found
19 “not patentably distinct” where, as here, one set is “an ‘obvious’ modification” of the invention
20 claimed in the other. *Id.* As the Federal Circuit has explained, “[f]undamental to this [ODP]
21 doctrine is the policy that the public should . . . be able to act on the assumption that upon the
22 expiration of the patent it will be free to use not only the invention claimed in the patent but also
23 *modifications or variants* which would have been obvious to those of ordinary skill in the art at the
24 time the invention was made, taking into account the skill of the art and prior art other than the
25 invention claimed in the issued patent.” *Longi*, 759 F.2d at 892-93 (emphasis added).

26
27 ³ Patent examiners issue “restriction requirements” when a patent application claims more than
28 one independent and distinct invention. This requires the applicant to choose only one of the
multiple inventions to pursue in the patent application. The other inventions may be pursued in
divisional applications. 35 U.S.C. § 121; Ex. 21 (Godici Rpt.) at ¶¶ 36, 44, 67.

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2 At best, the ODP rejection here shows that the '794 patent claims—"taking into account
3 the skill of the art and prior art other than the invention claimed in the issued ['420] patent"—
4 recite "modifications or variants which would have been obvious to those of ordinary skill in the
5 art at the time the invention was made." *See id.* But it does not prove that the '794 and '420
6 patents claim the same invention, or that Drs. Stuelpnagel and Oliphant are inventors of the claims
7 of the '794 patent. Moreover, that Illumina has never accused Ariosa of infringing the '420 patent
8 is telling proof that the '794 and '420 patents claim different inventions—particularly insofar as
the Harmony test is concerned.

9 Other courts have refused to apply assignor estoppel in analogous circumstances. For
10 example, in *Leading Edge Tech. Corp. v. Sun Automation, Inc.*, No. H-90-2316, 1991 U.S. Dist.
11 LEXIS 20766, at *21 (D. Md. Sept. 24, 1991), the court denied a summary judgment motion for
12 assignor estoppel on grounds that "material issues of fact exist concerning the identity between the
13 assigned invention and the invention or inventions claimed in the patents in suit." The *Leading*
14 *Edge* court held that, like here, the assigned invention and the asserted claims "although similar,
15 cannot be deemed identical as a matter of law," and thus the "[p]laintiff ... failed to carry its
16 burden of demonstrating as a matter of law that the assigned invention is the same as that claimed
17 in the patents in suit." *Id.* at *22; *id.* at *22-23 (further holding that "[c]ompeting inferences can be
18 drawn from the complicated factual background" and "prosecution history" of the patents in suit).
19 The *Leading Edge* court thus denied the motion because "[w]hether the equities in the case are
20 sufficient to permit the application of assignor estoppel involves disputed questions of fact." *Id.*

21 Further, even assuming Drs. Stuelpnagel and Oliphant invented some subject matter
22 recited in the claims of the '794 patent (they did not), any claims embodying that subject matter
23 are not at issue in this case. The only invention they are alleged to have made is the allele-specific
24 extension-ligation technique. Illumina itself contends only that claims 19 and 20 of the '794 patent
25 recite an "extension-ligation" embodiment (although Illumina does not and cannot contend that it
26 is allele-specific). Br. at 4. Claims 19 and 20 have not been asserted in this case.

27 "Because co-inventors need not make a contribution to the subject matter of every claim of
28 the patent, 35 U.S.C. § 116, inventorship is determined on a claim-by-claim basis." *Trovan, Ltd. v.*

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1 *Sokymat Sa*, 299 F.3d 1292, 1302 (Fed. Cir. 2002) (citation omitted). Even if Drs. Stuelpnagel and
2 Oliphant were inventors on claims 19 and 20 of the '794 patent (they are not), it would not mean
3 they are inventors of the entire breadth of claim 1 from which those claims depend. *See Virnetx*
4 *Inc. v. Apple Inc.*, No. 6:12-CV-855, 2016 WL 1117604, at *3 (E.D. Tex. Mar. 22, 2016) (“If the
5 inventive entity of an independent claim is accurate, a claim that depends from it may not have the
6 same inventive entity. *See* 25 U.S.C. § 116(a). For instance, an inventor may contribute to a patent
7 by conceiving a limitation that is only present in a dependent claim.”). It would only mean that
8 they are inventors of a narrower embodiment not being challenged here.

9 For at least these reasons, genuine disputes of fact preclude summary judgment.

10 **B. The Equities Weigh Against Estoppel**

11 Illumina’s motion also fails because it attempts to mask the primary concern of the
12 assignor estoppel inquiry—which is “the balance of equities between the parties”—by misstating
13 the relevant authority. Br. at 2; *see also Shamrock*, 903 F.2d at 793. Illumina appears to argue that
14 assignor estoppel should apply by default to an assignor of a patent, or a company he founded,
15 with only two exceptions: where there is an “express reservation by the assignor of the right to
16 challenge the validity of the patent or an express waiver by the assignee of the right to assert
17 assignor estoppel.” Br. at 2. This is not the law. If and when assignor estoppel applies is fact-
18 dependent, and requires a balancing of the equities based on those facts. *Shorty*, 992 F.2d at 1213.

19 The equities plainly weigh against assignor estoppel here. That is the only outcome
20 consistent with the policy underlying the doctrine: that “fair dealing should prevent [one] from
21 derogating from the title he has assigned.” *Mentor Graphics Corp. v. EVE-USA, Inc.*, No. 2015-
22 1470, 2017 U.S. App. LEXIS 16854, at *9 (Fed. Cir. Sept. 1, 2017) (Moore, J., concurring).
23 Drs. Stuelpnagel and Oliphant do not contend that *their invention*—for which they assigned title—
24 has no value. An invalidation of the asserted claims would not nullify the invention for which
25 Drs. Stuelpnagel and Oliphant assigned title to Illumina. Even if Drs. Stuelpnagel and Oliphant
26 were deemed to have assigned title to claims 19 and 20 of the '794 patent (they should not be),
27 those dependent claims would survive this litigation, because their validity has not been
28 challenged. Thus, Drs. Stuelpnagel and Oliphant would not be derogating from any “title” that

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they assigned, and Illumina would still have the full benefit of the assignment for which it bargained. Illumina loses nothing if assignor estoppel is not applied, but would gain an undeserved windfall if it were applied.

4 It would be most unfair to Ariosa if it were estopped from challenging the invalid patent
5 claims assigned by *former co-workers* of Drs. Stuelpnagel and Oliphant, simply because Illumina
6 decided to improperly combine too many inventions into the same patent application. See Br. at 2-
7 3. Ariosa had no input into any of Illumina’s patent prosecution decisions, and it would be
8 inequitable to bind Ariosa by them. Moreover, applying assignor estoppel to Ariosa would be
9 contrary to the purpose of the doctrine, which is to “prevent[] an individual and those in privity
10 with him from invalidating *his own invention.*” *Med. Designs, Inc. v. Med. Tech., Inc.*, 786 F.
11 Supp. 614, 617-18 (N.D. Tex. 1992) (emphasis added).

12 Drs. Stuelpnagel and Oliphant had in mind what they invented—allele-specific extension-
13 ligation—when they moved from Illumina to Ariosa. They did not develop any method that
14 employed that technique at Ariosa. Indeed, it is undisputed that Harmony does not use extension-
15 ligation at all. *See* footnote 2 *supra*. Moreover, Drs. Stuelpnagel and Oliphant were not the only
16 scientists who worked on developing Harmony at Ariosa. Ex. 23 (Oliphant Tr.) at 99:8-100:8; Ex.
17 35 (Sparks Tr.) at 59:1-65:15; Ex. 36 (Zahn Tr., 10/17/2014) at 344:4-345:20, 361:6-16, 363:13-
18 23, 366:22-367:2, 369:22-370:1, 390:6-13; Ex. 37 (Struble Tr., 10/31/2014) at 129:13-132:3. And
19 as Dr. Stuelpnagel testified, Ariosa’s team designed something *different* than what he and
20 Dr. Oliphant invented at Illumina— [REDACTED]

Ex. 22 (Stuelpnagel Tr.) at 222:20-223:4.

Applying assignor estoppel here also would undermine public policy interests, including by “interfer[ing] with employee mobility.” *See Mentor Graphics*, 2017 U.S. App. LEXIS 16854, at *7. If estoppel were to apply as broadly as Illumina urges, Drs. Stuelpnagel and Oliphant could be precluded from developing a whole host of technologies anywhere other than in Illumina’s laboratories, simply because their former co-workers obtained invalid patents that cover them. Moreover, applying assignor estoppel in this situation would encourage employers (like Illumina) to be overly inclusive in combining inventions and naming inventors on patent applications in

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2 order to hamper the ability of their employees to leave and develop competing innovations. *See*
3 Ex. 22 (Stuelpnagel Tr.) at 170:5-8, 190:11-191:6 (

4 **III. ILLUMINA'S MOTION ON THE COUNTERCLAIMS SHOULD BE DENIED**

5 **A. Factual Background**

6 **1. Illumina's Investment In Ariosa**

7 In 2010, Ariosa (formerly known as "Tandem" and later as "Aria")

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Ex. 48

at ILMNA00241202-205;

18 Ex. 41 (Song Tr.) at 140:3-7, 142:15-143:3, 147:24-149:5, 155:7-169:25; Ex. 22 (Stuelpnagel Tr.)
19 at 220:12-232:1, 236:22-242:14.

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27 ⁴ Sequencing-based version 1 is the only version of Harmony for which Ariosa used Illumina's
28 sequencers, and thus the only version relevant to Ariosa's license claims on which its
counterclaims are based. Accordingly, all references to Harmony in this section refer to version 1.

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5 The '794 patent is part of this patent family—indeed, Illumina contends it claims
6 the same invention. *See Section II.A supra.*

7 [REDACTED] Ex. 49 (Naclerio Tr.) at 126:8-13.

8 **2. The Ariosa-Illumina Sale And Supply Agreement (“SSA”)**

9 In parallel, the parties began negotiating an SSA [REDACTED] The negotiations were
10 thorough and extensive. Ex 63 ([REDACTED] Email). The primary negotiators for Illumina were
11 Crane Harris, Director of Business Development, and Nick Naclerio, Senior VP for Corporate and
12 Venture Development, and for Ariosa, Ken Song, CEO, and John Stuelpnagel, Executive
13 Chairman. Ex. 42 (Harris Tr.) at 34:24-35:1. Jay Flatley, Illumina’s CEO, was also involved. Ex.
14 68 (Flatley Tr.) at 176:23-177:10. Illumina drafted an initial Memorandum of Understanding
15 (“MOU”), which was converted into a draft SSA, which was then further negotiated, revised and
16 ultimately executed on January 4, 2012. Ex. 42 (Harris Tr.) at 137:22-138:1.

17 [REDACTED]
18 [REDACTED] *Id.* at 193:3-10. Instead, Illumina broadly granted a license to
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]
26 [REDACTED]

27 The SSA defines “Secondary IP Rights” as [REDACTED]
28 [REDACTED]

1
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3
4 identify any Secondary IP Rights

Nevertheless, Illumina did not

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13 “Core” and “Secondary” IP Rights in Goods together encompass the totality of “Illumina
14 Intellectual Property Rights that *pertain to the Goods (and use thereof)*.¹”

15 **3. Illumina Buys Verinata And Breaches Its Obligations To Ariosa**

16 In January 2013, Illumina announced that it would acquire Verinata, a competitor of
17 Ariosa. Ex. 43 (“Illumina to Acquire Verinata for up to \$450M,” GenomeWeb). Ariosa’s
18 exclusive supplier had now become a direct competitor. Troubled by this development, Ariosa
19 immediately met with senior Illumina officials, who assured Ariosa that Illumina would continue
20 to honor its commitments under the SSA. Ex. 49 (Naclerio Tr.) at 80:3-20.

21 These assurances proved hollow. Instead, Illumina began to assert that Ariosa was
22 breaching the SSA by reporting fetal sex to customers. Ex. 65 (2/8/2013 Email); Ex. 51
23 (1/10/2014 Letter).

24
25 [REDACTED] a protocol expressly permitted under the SSA

26 [REDACTED] See Ex. 44 (SSA) at § 1 (“Customer Field of Use” defined as “cell-free
27 detection of fetal chromosomal aneuploidies having a length greater than one megabase ...”); Ex.
28 66 (2/5/2013 Email); Ex. 48 [REDACTED] at ILMNA00241208 [REDACTED]

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11 In late 2013, Ariosa began preparing for an IPO to raise capital and expand its business.
12 Ex. 41 (Song Tr.) at 189:11-190:6.

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15 Within hours of that announcement, Illumina sent a letter to Ariosa stating that
16 it was revoking all previous offers to amend the SSA and reserved its right to terminate the
17 agreement. Ex. 52 (4/24/2014 Letter). The letter made no mention of the '794 patent, nor indicated
18 any need for Ariosa to license the patent. *Id.* The next day, Illumina filed the '794 patent
19 infringement action and issued a press release to maximize the public impact. Ex. 60 (Illumina
20 Press Release). The timing of Illumina's actions was not a coincidence. Illumina intended to, and
21 did, disrupt Ariosa's plans to launch an IPO by threatening to terminate the SSA and asserting a
22 claim for infringement at precisely the moment Ariosa announced pricing for its IPO. Now
23 embroiled in a patent infringement suit brought by its sole supplier, Ariosa was forced to cancel its
24 IPO and was ultimately purchased by Roche. Ex. 61 (Roche Media Release).

25

B. Illumina's Breach Of Contract

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1. The SSA Licensed Ariosa To The '794 Patent

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As noted above, under the SSA, "Core" and "Secondary" IP Rights in Goods together
encompass all "Illumina Intellectual Property Rights that pertain to the Goods (and use thereof)."

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1 Ex. 44 (SSA) at § 1. Thus, with respect to all “Illumina Intellectual Property” that “pertain[s] to
2 the Goods (and use thereof)” in the “Customer Field of Use,” the SSA grants Ariosa [REDACTED]

3 [REDACTED]
4 There can be no dispute the ’794 patent was “Illumina Intellectual Property” as
5 of the effective date of the SSA. See Case No. 3:14-cv-01921, D.I. 1, at ¶¶ 3, 12-13 [REDACTED]

6 [REDACTED] Ex. 44 (SSA) at Ex. A. And in its motion,
7 Illumina makes no argument, nor could it credibly do so, that Harmony is outside the “Customer
8 Field of Use.”

9 Thus, the central question presented in Illumina’s motion is whether the ’794 patent
10 “pertains to” Ariosa’s “use” of Illumina’s HiSeq sequencer and reagents in connection with the
11 Harmony test. If it does, then Ariosa either had an express license to the patent (as “Core IP Rights
12 in Goods”) or an express representation [REDACTED]

13 [REDACTED] Either way, Illumina wrongfully
14 sued Ariosa on a patent to which it was expressly granted rights. Illumina contends that the ’794
15 patent is [REDACTED] does not “pertain to” Ariosa’s use
16 of Illumina’s sequencers. Illumina’s own infringement theory refutes that argument.

17 As noted above, [REDACTED]

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 The figure to the right is an “assay system overview” for the
22 Harmony test from Ariosa’s [REDACTED]. Ex. 48 at
23 ILMNA00241208. As depicted, the Harmony test included “target region
24 enrichment” followed by “detection (sequencing).” [REDACTED]
25 [REDACTED] about its “target region enrichment,” which
26 comprises the accused DANSR assay.



27 Claim 1 of the ’794 patent, the only independent claim in the patent, recites a method for
28 “determining whether a sample contains at least 100 different target sequences,” comprising steps

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1 (a) through (g). In its infringement contentions and expert report, Illumina claims that aspects of
2 Ariosa's "target region enrichment" process and "detection (sequencing)" process, *using Illumina'*
3 *sequencers*, together satisfy method steps (a) through (g) of the '794 patent. In particular,
4 Illumina's infringement expert, Dr. Cooper, contends that Ariosa uses an Illumina sequencer to
5 "determin[e] whether a sample contains at least 100 different target sequences"—the very purpose
6 of the claimed method—and *relies solely on Ariosa's use of Illumina's sequencers* to meet steps
7 (f) and (g) of the claim. Ex. 40 (Cooper Rpt.) at ¶¶ 127, 136-139.

8 Step (f) requires immobilizing different amplicons to a "second solid support." Dr. Cooper
9 contends Ariosa practices this step by "sequencing on an Illumina HiSeq instrument." *Id.* at ¶ 127.
10 Specifically, Dr. Cooper contends that "an Illumina flow cell is the 'second solid support' to
11 which the amplicons are immobilized" in Harmony, version 1. *Id.* As his evidence, Dr. Cooper
12 cites *Illumina's own documentation* produced in this case, titled "Illumina Technology Spotlight:
13 Illumina® Sequencing" *Id.* Step (g) claims a "detecting" step, which Dr. Cooper equates with
14 "sequencing" using Illumina's sequencers. He explains that, after Ariosa immobilizes amplicons
15 on an Illumina flow cell, "the sequence identities of each amplicon are read via Illumina
16 sequencing chemistry." *Id.* at ¶ 136. Illumina's infringement contentions likewise rely on Ariosa's
17 use of Illumina's sequencers for these claim steps.⁵

18 To meet the other steps of the claim, Dr. Cooper relies on Ariosa's target region
19 enrichment, which comprises the DANSR library preparation assay. As Ariosa's "assay system
20 overview" diagram (above) depicts, this assay provides the input to the Illumina sequencer.
21 According to Dr. Cooper, it is precisely the DANSR assay's enrichment and amplification—the
22 purpose of which is to produce amplification products for ultimate sequencing in an Illumina
23

24 ⁵ Ex. 14 (6/20/2014 Patent L.R. 3-1 Discl., D.I. 405-20) Appx. A, pp. 10-13 (alleging infringement
25 of claim element 1(f) using Illumina "TruSeq v2 SR flow slide" and "TrueSeq v2 SR cluster-kit-
26 flow-cell (Illumina)," referencing Illumina technical document "Technology Spotlight: Illumina
27 Sequencing" as evidence); *id.* at pp. 13-14 (alleging infringement of element 1(g): "The slide was
28 processed on an Illumina HiSeq 2000 ...," "The Accused Products perform this function by
processing the slide on an Illumina sequencer to identify the sequences of the different amplicons
or complements of the different amplicons immobilized to the slide ... to determine that the
sample contains at least 100 different target sequences."); Ex. 1 ('794 patent, D.I. 404-01) 69:8-12.

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2 sequencer—that Illumina contends practices the other steps of the '794 patent. *See, e.g. id.* at
3 ¶¶ 77, 82-106, 116, 121-125.

4 Moreover, Ariosa's experts explained in their reports that in this field, it is necessary to
5 enrich and amplify DNA, as Harmony does in the DANSR assay, before it can be sequenced. Ex.
6 29 (Quackenbush Rpt.) at ¶¶ 74, 85; Ex. 20 (Cantor Rpt.) at ¶¶ 89; *see also* D.I. 398, at 3-7, for
7 technical background. Without this enrichment and amplification, "use" of "the Goods" for
8 "detection of fetal chromosomal abnormalities ... using DNA sequencing" would be impossible,
as there would not be enough material to sequence. *See* Ex. 44 (SSA) at §§ 1, 3(a).

9 Under Illumina's own infringement theory, the '794 patent clearly "pertains to" Ariosa's
10 "use" of the "Goods ... in the Customer Field of Use." *Id.* at § 2. The express rights and
11 representations Illumina provided in the SSA thus licensed Ariosa to the '794 patent.

12 **2. Ariosa Had An Express License To The '794 Patent**

13 As noted above, all Illumina IP Rights that pertain to the Goods are either "Core" or
14 "Secondary." "Core IP Rights" are defined negatively: "Illumina Intellectual Property Rights that
15 pertain to the Goods (and use thereof . . .) *other than Secondary Illumina IP Rights.*" Illumina
16 maintains that the '794 patent "does not even fall under th[e] category" of "Secondary IP Rights."
17 Br. at 13-14. In fact, one of several required conditions for constituting a "Secondary IP Right" is
18 that the IP must pertain to the use of the Goods "only with regard to particular field(s) or
19 application(s)." Ex. 44 (SSA) at § 1. The '794 patent is not limited to particular fields or
20 applications. *See, e.g.,* Ex. 1, D.I. 404-01 ('794 patent) at 11:50-60 ("one standard array,
21 comprising a finite set of capture probes can be made and used in any application"). Thus, the
22 '794 patent should be classified as Core IP to which Ariosa was expressly licensed.

23 In arguing against an express license, Illumina resorts to misstating the actual terms of the
24 SSA. For example, Illumina states that [REDACTED]

25 [REDACTED]
26 [REDACTED]
27 Instead, it broadly [REDACTED]
28 provides that Core IP Rights in Goods need only "pertain to" use of such Goods. [REDACTED]

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3 [REDACTED]

4 Illumina also argues that “only the Goods actually purchased under the agreement would
5 be covered by the grant of IP rights,” whereas the ’794 patent “does not cover the sequencing
6 equipment and reagents that Ariosa purchased under the Agreement.” Br. at 9, 11. But under this
7 argument, all method patents, including but not limited to the ’794 patent, would be excluded,
because method claims do not cover goods, only the use of goods.

8 In view of the actual words of the SSA, Illumina’s only argument on summary judgment
9 against Ariosa’s express license theory is that the ’794 patent does not “pertain to” Ariosa’s “use”
10 of Illumina’s sequencers. But that fails for the reasons set forth in the prior section.

11 Ariosa’s express license theory is further supported by the testimony of Crane Harris,
12 Illumina’s chief negotiator for the SSA and 30(b)(6) witness on this topic. During negotiations,
13 Ariosa asked Illumina [REDACTED]

14 [REDACTED]
15 [REDACTED]
16 [REDACTED]
17 [REDACTED] *Id.* (emphasis
18 added). Thus, after reviewing the Harmony test, [REDACTED]

19 [REDACTED]
20 [REDACTED] This further confirms that Ariosa was expressly licensed to the ’794 patent.

21 Finally, Illumina relies on a snippet of testimony from Dr. Quackenbush, but that
22 testimony does not relate to the question at hand. Dr. Quackenbush, Ariosa’s non-infringement
23 expert, was testifying that Ariosa does not *infringe* the ’794 patent. He was never asked whether,
24 *under Illumina’s infringement theory*, the ’794 patent *pertains to* Ariosa’s use of Illumina’s
25 sequencers. That is the relevant question here. And the answer is plainly “yes.”

26 Thus, Illumina is not entitled to summary judgment on Ariosa’s express license claim.
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3. Alternatively, Ariosa Has An Implied License To The '794 Patent

If Ariosa were not expressly licensed to the '794 patent as "Core IP Rights," then the '794 patent would necessarily fall within "Secondary IP Rights in Goods." In that event, Illumina's express representations [REDACTED] at minimum, provided Ariosa an implied license to the '794 patent. "[A]n implied license merely signifies a patentee's waiver of the statutory right to exclude others from making, using, or selling the patented invention." *Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc.*, 103 F.3d 1571, 1580 (Fed. Cir. 1997). The parties' "entire course of conduct" is relevant. *Id.* at 1580-82. "No formal granting of a license is necessary in order to give it effect. Any language used by the owner of the patent or any conduct on his part exhibited to another, from which that other may properly infer that the owner consents to his use of the patent in making or using it, or selling it, upon which the other acts, constitutes a license" *De Forest Radio Tel. & Tel. Co. v. United States*, 273 U.S. 236, 241 (1927).

13 Here, an implied license can easily be inferred from Illumina's words and conduct. As
14 noted above, [REDACTED]

15 [REDACTED] Ex. 48 ([REDACTED]). At that meeting, Ariosa
16 even called out the family to which the '794 patent belongs and stated that its DANSR assay
17 steered clear of the inventions disclosed in that patent family. *Id.* Not only did Illumina stay mum
18 at the meeting, Ex. 49 (Naclerio Tr.) at 120:11-21, it then represented [REDACTED]

21 [REDACTED] (emphasis added).
22 The testimony of Naclerio, Illumina's Senior VP, makes an implied license even more
23 apparent here.

25 [REDACTED] Ex. 49 (Naclerio Tr.) at 120:11-21. Yet Illumina said nothing at the meeting
26 and [REDACTED], which Naclerio himself executed on behalf
27 of Illumina. Ex. 44 (SSA) at p. 21. It was only after Illumina purchased Verinata that Illumina
28 thought about asserting the '794 [REDACTED]

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2 Ex. 49 (Naclerio Tr.) at 50:25-52:6, 120:11-21, 136:2-25, 140:6-8. Based on Naclerio's
3 admissions, [REDACTED]

4 [REDACTED] designed to lure Ariosa into believing that it would not face an infringement
5 suit under the '794 patent.

6 On this record, it was proper for Ariosa to infer that Illumina consented to Ariosa's
7 continued offering of Harmony as it previously disclosed to Illumina, without the need for an
8 additional, separate license to the '794 patent. Taken as a whole, the SSA was intended to enable
9 Ariosa to conduct and sell the Harmony test—its only product. Indeed, [REDACTED] Illumina
10 was an investor in Ariosa and thus had an interest in its success. In light of the parties'
11 relationship, [REDACTED] makes clear that Ariosa did not *need* any further
12 rights from Illumina for Harmony. Illumina thus "communicat[ed] that [Ariosa] will not be
13 disturbed by the plaintiff patentee in the activities in which the former is currently engaged."
Winbond Elec. Corp. v. ITC, 262 F.3d 1363, 1374 (Fed. Cir. 2001).

14 Illumina raises three counterarguments to Ariosa's implied license claim. First, Illumina
15 again argues that [REDACTED]

16 [REDACTED]
17 But this argument fails for all of the reasons set forth above.

18 Second, Illumina argues that [REDACTED]

19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 Third, Illumina argues that [REDACTED]

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 Illumina's interpretation [REDACTED]

7 [REDACTED]

8 [REDACTED]. Indeed, under Illumina's interpretation, it could

9 have immediately claimed that Ariosa was in breach of the SSA for failing to obtain a license to

10 the '794 patent, and could have sued Ariosa for infringement the next day. Such a bizarre

11 interpretation would render Illumina's assurance [REDACTED] a dead letter. Under California law, an

12 interpretation of a contract that would nullify one of the contract's provisions is rarely if ever

13 correct. *See e.g., Sutcliffe v. Wells Fargo Bank, N.A.*, 283 F.R.D. 533, 551 (N.D. Cal. 2012)

14 (applying California law in part and rejecting a proposed interpretation that would "nullify other

15 express provisions" of an agreement); *Brinderson-Newberg Joint Venture v. Pac. Erectors*, 971

16 F.2d 272, 278-79 (9th Cir. 1992) (applying California law, and noting "[i]t is well settled that a

17 contract should be interpreted so as to give meaning to each of its provisions"); Cal. Civ. Code

18 § 1641 ("The whole of a contract is to be taken together, so as to give effect to every part, if

19 reasonably practicable, each clause helping to interpret the other.").⁶

20 In sum, under Illumina's own infringement contentions, the '794 patent pertains to

21 Ariosa's use of Illumina's sequencers. As a result, Ariosa was either granted an express license to

22 the '794 patent as "Core IP Rights" under § 3(a) of the SSA, or an implied license to the patent

23 [REDACTED] in light of Illumina's overall conduct, statements and silence.

24 Either way, Illumina's patent infringement suit against Ariosa under the '794 patent was barred.

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⁶ None of the cases on which Illumina relies involved a party that provided express assurances that the other party did not need any further IP rights for its contemplated activity.

1 **4. Illumina Breached Its License To Ariosa Under The '794 Patent By
2 Suing For Patent Infringement**

3 Illumina contends that because the SSA “does not contain a covenant not to sue,” it could
4 not have breached the SSA. Br. at 14. This is false. “[A] license is, by its nature, an agreement not
5 to litigate. A licensor agrees to receive royalties or other consideration from the licensee in
6 exchange for a covenant not to sue or disturb the licensee’s activities.” *MedImmune, Inc. v.*
7 *Centocor, Inc.*, 409 F.3d 1376, 1379 n.1 (Fed. Cir. 2005), *vacated on other grounds*, 549 U.S.
8 1163 (2007); *see also TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271, 1275
9 (Fed. Cir. 2009) (“As a threshold matter, a patent license agreement is in essence nothing more
10 than a promise by the licensor not to sue the licensee.”). For the reasons explained above, Ariosa
11 either had an express or implied license to the '794 patent. In either case, the premise of Illumina’s
12 argument—that “nothing in the Agreement prohibits Illumina from filing suit to enforce that
13 patent” (Br. at 14)—is wrong.

14 **5. Illumina Cannot Absolve Itself From Liability For Its Willful Injury To
15 Ariosa**

16 Illumina contends that § 18 should be interpreted so broadly that it precludes Ariosa from
17 obtaining *any* recovery. Br. at 14.

18 [REDACTED]

19 But if that were the case, then § 18 imposes a complete exemption
20 from liability. So interpreted, the SSA’s requirement to supply Ariosa with Goods and provide IP
21 rights for three years is illusory. This renders § 18 unenforceable under Cal. Civ. Code §1668,
22 which provides that “[a]ll contracts which have for their object, *directly or indirectly*, to exempt
23 anyone from responsibility for his own . . . willful injury to the person or property of another . . .
24 are against the policy of the law.” *BlueGem Sec., Inc. v. Trend Micro Inc.*, No. 09-1492, 2010 WL
25 11505702, at *7-8 (C.D. Cal. June 8, 2010) (emphasis in original); *id.* (striking limitation of
26 liability clause in contract case under section 1668 because it “effective[ly] exempt[s defendant]
27 from any true liability for wrongdoing.”); *Civic Ctr. Dr. Apts. Ltd. v. S.W. Bell Video Servs.*, 295
28 F. Supp. 2d 1091, 1106 (N.D. Cal. 2003) (section 1668 applies to breach of contract claims;

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finding factual dispute whether limitation of liability provision was enforceable). The jury could readily conclude that Illumina willfully injured Ariosa's business after Illumina became a competitor with the acquisition of Verinata.

Even if § 18 were enforceable, it would merely impose a *cap* on damages. Section 18 states

[REDACTED]

Ex. 44 (SSA) at § 18. Ariosa paid Illumina at least [REDACTED] under the SSA. Ex. 59 (Yee Decl.) at ¶ 3. At a minimum, then, Ariosa may seek at least [REDACTED] in damages from Illumina under its counterclaims. Illumina's cited authority is in agreement. *Hebert v. Rapid Payroll, Inc.*, No. 02-4144, 2005 WL 6172659, at *7 (C.D. Cal. Feb. 9, 2005) (limitation of liability clause "limits Plaintiff's claimable damages to the amount of payments made by Plaintiff to [defendant]"') (emphasis added).

Finally, without any basis, Illumina claims that Ariosa is only seeking consequential damages. That is not true. Ariosa has alleged direct damages as a result of Illumina's breach. Direct damages are damages "that flow directly and necessarily from a breach of contract, or that are a natural result of a breach." *Lewis Jorge Constr. Mgmt., Inc. v. Pomona Unified School Dist.* 34 Cal. 4th 960, 968 (2004). Ariosa paid Illumina [REDACTED] under the SSA. But Ariosa had to abandon the Illumina Goods after Illumina breached the license it granted Ariosa by suing Ariosa for its use of those very Goods. Illumina's breach thus deprived Ariosa the benefit of its [REDACTED] bargain under the SSA. Illumina's breach also caused Ariosa direct damages in the form of the costs Ariosa incurred to accelerate its switch to a different platform. These are all plainly recoverable forms of direct damages flowing directly from the breach.⁷ See *id.*

6. Illumina's Conduct Caused Ariosa's Damage

Illumina also misrepresents the events surrounding its scuttling of Ariosa's IPO. Illumina argues that Ariosa [REDACTED]. Br. at 18. Not so. Illumina conflates the effects of two of its own separate breaches. On April 24, 2014,

⁷ Even had Ariosa not suffered quantifiable damages—which it certainly has—it would be entitled at minimum to nominal damages. See Cal. Civ. Code § 3360 ("When a breach of a duty has caused no appreciable detriment to the party affected, he may yet recover nominal damages.").

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1 Illumina sent a letter to Ariosa accusing it of breach and indicating that it may terminate the SSA
2 prematurely. Ex. 52 (4/24/2014 Letter) [REDACTED]

3 [REDACTED]. As discussed in the next section, this accusation breached Illumina's obligations
4 under the covenant of good faith and fair dealing. [REDACTED]

5 [REDACTED] Ex. 58 (Gilliam Tr.) at 123:4-12; Ex. 41 (Song Tr.) at 195:2-10.

6 The next day, Illumina sued Ariosa under the '794 patent in breach of its license grants to
7 Ariosa. Ariosa had no choice but to *cancel* the IPO in light of that lawsuit, as Ariosa's former
8 CEO, Ken Song, testified. He explained that the filing of the '794 patent lawsuit [REDACTED]

9 [REDACTED] (Ex. 41 (Song Tr.) at 200:8-17); *see also*
10 Ex. 58 (Gilliam Tr.) at 123:4-12, 155:8-10 (testifying that [REDACTED]

11 [REDACTED] A patent infringement suit filed by Ariosa's sole
12 supplier, which would take years to resolve, made an IPO impossible for practical purposes.

13 **C. Breach Of Covenant Of Good Faith And Fair Dealing.**

14 California law recognizes a covenant of good faith and fair dealing in every contract.
15 *Storek & Storek Inc. v. Citicorp Real Estate*, 100 Cal. App. 4th 44, 55 (2002). The covenant is
16 based on "the long-standing rule that neither party will do anything which will injure the right of
17 the other to receive the benefits of the agreement." *Waller v. Truck Ins. Exch., Inc.*, 11 Cal. 4th 1,
18 36 (1995). Indeed, the covenant is useful in exactly situations as here, where a party to a contract
19 attempts to frustrate "the other party's rights to the benefits of the contract" even though they may
20 claim that the conduct does "not technically transgress[] the express covenants" of the contract.
21 *Racine & Laramie, Ltd. v. Dep't of Parks & Recreation*, 11 Cal. App. 4th 1026, 1031-32 (1992).⁸

22 Illumina contends that Ariosa cannot "rewrite Illumina's obligations under the agreement"
23 and argues that because the contract does not explicitly bar Illumina from bringing an
24 infringement action, it cannot be a violation of the covenant to do so. Br. at 19. But as discussed

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28 ⁸ None of the cases cited by Illumina suggest otherwise. In *Inter-mark USA, Inc. v. Intuit, Inc.*, the plaintiff's claim was dismissed because the parties did not have a contract and the plaintiff brought a breach of contract claim *based on* the breach of good faith and fair dealing. No. C-07-04178, 2008 WL 552482, at *7 (N.D. Cal. Feb. 27, 2008). Here, Ariosa and Illumina had a valid contract.

1 **REDACTED VERSION OF DOCUMENT SOUGHT TO BE FILED UNDER SEAL**

2 above in Section III.B.4 *supra*, the agreement *did* provide a covenant not to sue—the explicit or
3 implied license to the '794 patent. And even if Illumina were correct, this is the exact purpose of
4 the covenant of good faith and fair dealing—where a party attempts to “frustrate” the other party
5 through conduct that does not “technically” breach any express covenants, the conduct breaches
the covenant of good faith and fair dealing. *Racine & Laramie*, 11 Cal. App. 4th at 1031-32.

6 The SSA provided for more than just a simple transfer of sequencers and related
7 products—it also involved the transfer of IP rights needed to *use* those Goods in the Harmony test.
8 Indeed, the entire purpose of the SSA for Ariosa was to use the Illumina Goods to conduct and sell
9 the Harmony test. Through its pretextual assertions of breach culminating in its April 24, 2014
10 letter and its filing of the '794 patent litigation the very next day, Illumina plainly injured Ariosa’s
11 rights to the benefits of the agreement. Illumina—which had become a competitor of Ariosa’s
12 after acquiring Verinata—intentionally frustrated Ariosa’s ability to use those Goods for the
13 Harmony test, for which Ariosa had bargained and paid Illumina [REDACTED] Ex. 59 [Yee Decl.]
14 at ¶ 3. Illumina’s actions clearly frustrated the purpose and intent of the SSA and were motivated
15 by Illumina’s desire to drive Ariosa from the marketplace, rather than cooperate. *See Racine &*
16 *Laramie*, 11 Cal. App. 4th at 1031-32 (1993) (party breached covenant by frustrating purpose of
17 contract); *Airis SFO, LLC v. City & Cty. of S.F.*, No. A121855, 2010 WL 3687508, at *12 (Cal.
18 Ct. App. Sept. 22, 2010) (party breached covenant by undertaking actions that were “contrary to
19 the contract’s purposes and the parties’ legitimate expectations”). Thus, Ariosa is not rewriting
20 Illumina’s obligations; it is seeking compensation for being deprived the benefits of the SSA.

21 **IV. ILLUMINA’S MOTION ON ARIOSA’S AFFIRMATIVE DEFENSES SHOULD BE
DENIED**

22 For the same reasons stated above in Section III.B.1-3 *supra*, Illumina is not entitled to
23 summary judgment on Ariosa’s express and implied license affirmative defenses to Illumina’s
24 infringement claims under the '794 patent.

25 **V. CONCLUSION**

26 For the reasons set forth above, Plaintiffs’ motion for summary judgment should be denied.

1 REDACTED VERSION OF DOCUMENT SOUGHT TO BE FILED UNDER SEAL

2 September 15, 2017

3 Respectfully submitted,

4 IRELL & MANELLA LLP

5 By: /s/ Sandra L. Haberny

6 Sandra L. Haberny

7 Attorneys for Defendant and Counterclaim-
8 Plaintiff ARIOSA DIAGNOSTICS, INC.

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